



## DEPARTMENT OF GENERAL SERVICES

Executive Office

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March 12, 2002

The Honorable Steve Peace, Chair  
Joint Legislative Budget Committee  
State Capitol, Room 3060  
Sacramento, CA 95814

Dear Senator Peace:

As required by the Supplemental Report of the 2001 Budget Act 1760-001-0666 #1, the Department of General Services submits an evaluation of the State Emergency Telephone Number Account.

If you have any questions or require additional information regarding this report, please contact Barry R. Hemphill, Deputy Director, Telecommunications Division, Department of General Services at (916) 657-9428.

Very truly yours,

Barry D. Keene, Director  
Department of General Services

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Attachment

cc: See attached Supplemental distribution list #2  
Barry R. Hemphill, Deputy Director, Telecommunications Division, Department of  
General Services  
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Originating Office

**SUPPLEMENTAL REPORT--REVISED 01/28/02**

***REPORT TO THE LEGISLATURE  
ON THE  
STATE EMERGENCY TELEPHONE NUMBER ACCOUNT  
Supplemental Report of the 2001 Budget Act,  
Item 1760-001-0666***

**STATE OF CALIFORNIA  
DEPARTMENT OF GENERAL SERVICES  
TELECOMMUNICATIONS DIVISION**

**BARRY R. HEMPHILL  
Deputy Director**

March 2002

The Department of General Services (DGS), Telecommunications Division (TD), prepared this analysis pursuant to the *Supplemental Report of the 2001 Budget Act, Item 1760-001-0666* regarding the 9-1-1 Emergency Telephone Users' Surcharge that states:

*The DGS shall, by March 1, 2002, provide a report to the chairs of the budget committees in each house and the Chair of the Joint Legislative Budget Committee which analyzes the appropriateness of 911 surcharges to California phone subscribers. This analysis shall take into consideration the growing number of cellular phone subscribers, the need to maintain current 911 operations and enhance 911 wireless services, and the need to maintain an adequate reserve in the State's Emergency Telephone Number Account. The report shall identify an appropriate reserve for the State Emergency Telephone Number Account and recommend rate adjustments to the surcharge to achieve the recommended reserve level.*

## **BACKGROUND**

The TD, in concert with all public safety agencies in the state, is dedicated to providing its residents and visitors the best emergency services possible. With a population of approximately 36 million, the universality of 9-1-1 in California is imperative. The goal of the TD's California 9-1-1 Emergency Communications Office (9-1-1 Office) is to enable Public Safety Answering Points (PSAPs) to provide the fastest, most reliable, cost-effective telephone access to emergency services for any 9-1-1 caller in California.

The 9-1-1 Office administers California's statewide 9-1-1 program pursuant to Government Code Sections 53100 et seq. This includes 9-1-1 system compliance evaluation, in addition to reviewing, approving and reimbursing PSAPs for necessary and reasonable costs associated with the planning, implementation, and maintenance of a state-approved 9-1-1 system. In accordance with law, the 9-1-1 Office monitors all emergency telephone systems to ensure compliance with operational and technical standards as established by the Office. There are approximately 500 PSAPs operating throughout the state. Work continues toward enhancing California's 9-1-1 systems which includes rapidly developing and innovative telecommunications technologies, such as WE9-1-1.

## ***Emergency Telephone Users Surcharge***

Funding for the statewide 9-1-1 network is generated through the Emergency Telephone Users Surcharge (9-1-1 surcharge). This 9-1-1 surcharge was established pursuant to the California Revenue and Taxation Code Section 41001 et seq. Telephone users, as defined, are charged a flat rate percentage on all intrastate telephone calls. Every September, the TD is responsible for

determining a rate that will generate revenue sufficient to fund all costs associated with the planning, implementation, and maintenance of 9-1-1 systems within the budget year. The surcharge rate can be set no lower than 0.50 percent (one-half of one percent) and no higher than 0.75 percent (three-quarters of one percent). For more than five years, the surcharge has not been increased and thus has remained at 0.72 percent (see Table 1).

TABLE 1

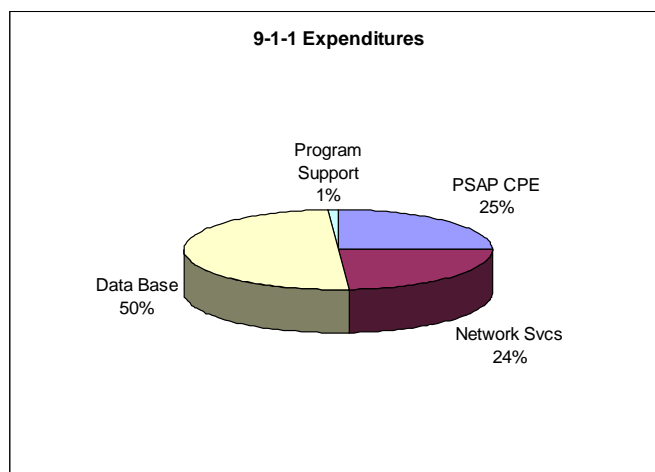
9-1-1 REVENUE		
Fiscal Year	9-1-1 Surcharge Rate	Revenue Generated
1997-1998	0.72%	\$ 85,053,000
1998-1999	0.72%	\$ 97,465,000
1999-2000	0.72%	\$104,717,000
2000-2001	0.72%	\$121,668,000
2001-2002*	0.72%	\$127,295,000
2002-2003*	0.72%	\$141,680,000

\* Projected

## ***Fiscal***

Maintaining a statewide 9-1-1 emergency communications system for the fifth largest economy in the world requires a great deal of planning, coordination, and funding. Major components of the system include network services, database services, customer premise equipment, and support. While there are other areas of cost associated with the maintenance of 9-1-1, these four areas comprise the major cost elements (See Chart 1).

Chart 1



### Network Services

The 9-1-1 infrastructure is based on a system of electronic transports criss-crossing the state connecting the public to more than 500 PSAPs throughout the state. This transport network carries vital information about the caller to the PSAP, such as automatic number identification (ANI) and automatic location identification (ALI), and facilitates the transfer of this information from one public safety agency to another. Pacific Bell and Verizon own these network components and the 9-1-1 Office purchases specific services from them.

### Database Services

The database component is where the vital telephone number and street address information of the 9-1-1 callers reside. At about 50 percent, it comprises the largest portion of the 9-1-1 budget.” Data is collected, stored, and updated on every telephone subscriber in California through secure databases owned and maintained by Pacific Bell and Verizon. With information from these databases, calls for 9-1-1 emergency assistance are routed through the network to the appropriate PSAP based on the caller’s physical location, ultimately delivering the telephone number and street address of the caller. Jurisdictional boundaries for local law enforcement, fire, and emergency medical programmed into the database records determine where each call is routed.

### Customer Premise Equipment

Once the database provides the data and the network transports that data to the appropriate PSAP, equipment at the PSAP allows the PSAP operator to view critical 9-1-1 call information (e.g. ANI and ALI). It also allows the PSAP to transfer the call with all associated data to another PSAP if a different emergency response agency is required, such as a fire response agency. This telephone equipment is commonly called customer premise equipment (CPE). The 9-1-1 Office funds CPE equal to the number of approved 9-1-1 answering positions at each of the PSAPs.

### Support

The smallest component of the four cost categories is support. Funding to administer 9-1-1 statewide goes toward providing a small staff to advise and consult with the 500 public safety agencies in planning, upgrading, or replacing 9-1-1 systems. Other support costs are attributed to the Board of Equalization for collecting and administering the 9-1-1 surcharge.

Any revenue generated through the 9-1-1 surcharge that is not appropriated, remains in the ETNA. Although the cost to administer 9-1-1 has increased over the years, the amount remaining in the ETNA has continued to grow as well (see Table 2). These remaining funds were intended to be used to implement the Federal Communications Commission's Report and Order 94-102 with regard to WE9-1-1 in California.

*Table 2*

	Retained Earnings (Dollars in Thousands)				
	FISCAL YEAR				
	1998/99	1999/00	2000/01	2001/02**	2002/03**
<b>BEGINNING RETAINED EARNINGS*</b>	\$ 55,065	\$ 61,643	\$ 66,738	\$ 86,442	\$ 11,830
<b>REVENUES</b>	\$ 97,465	\$104,717	\$121,668	\$127,295	\$141,680
<b>Expenditures</b>					
Disbursements:					
<b>Support Costs</b>					
Department of General Services	\$ 966	\$ 1,074	\$ 1,141	\$ 1,248	\$ 1,244
Board of Equalization	\$ 668	\$ 662	\$ 584	\$ 754	\$ 755
Local Assistance:					
Department of General Services	\$ 91,739	\$ 96,688	\$ 100,239	\$136,788	\$146,353
General Fund Transfer per Chapter 106/01, Section 25.10(a)				\$ 63,117	
Statewide Admin General (Pro Rata)					\$ 3,180
<b>TOTAL EXPENDITURES</b>	\$ 93,373	\$ 98,424	\$ 101,964	\$201,907	\$151,532
<b>Ending Retained Earnings</b>	\$ 59,157	\$ 67,936	\$ 86,442	\$ 11,830	\$ 1,978

\* Includes any prior year adjustments

\*\*Projected

### WE9-1-1

The 9-1-1 Emergency Telephone Number System is a network of centralized PSAPs designed to provide immediate access to emergency services (police, fire, emergency medical, etc.). Since December 1985, the entire State of California has had access to emergency telephone service. In December 1992 the statewide upgrading of the landline 9-1-1 system to enhanced 9-1-1 (E9-1-1) was completed. This allows 9-1-1 calls to be expedited through the E9-1-1 network and "selectively routed" to the appropriate PSAP serving the caller's area. Because of E9-1-1, callers are talking with emergency services personnel in less than 10 seconds from the time they finish dialing 9-1-1, speeding emergency response agencies to those in need.

In contrast to the landline environment, wireless 9-1-1 evolved from the old mobile telephone service, which originally consisted exclusively of stationary phones installed in vehicles. Since vehicles were typically on the road -- often on freeways -- it made sense to route all 9-1-1 calls to the

agency that would respond to those calls. Logically, the California Highway Patrol (CHP) by law received ALL mobile or wireless 9-1-1 calls. However, as technology changed and the wireless industry began to grow, more and more people were leaving their cars behind and taking their wireless phones to parks, malls, movie theaters, and even into their homes. With the current proliferation of wireless telephones, many calls originate from a location other than a freeway or county road. Unfortunately, wireless 9-1-1 has not kept pace with the features afforded landline 9-1-1. There is no wireless E9-1-1 to selectively route the call to the most appropriate PSAP for emergency response. Hence the CHP must determine this manually by interrogating the caller to ascertain the primary PSAP serving the location from which the call is made. Even more discouraging is that there is no ANI or ALI to identify where the caller is. What this means is that, the CHP does not automatically know the caller's location. Hence, we hear reports of call wait times in excess of one minute, people being locked for hours in the trunks of their vehicles on the verge of suffocation, or children unable to relay information about their location to speed emergency assistance to them.

In June of 1996 the FCC adopted rules that require the passing of information which will identify the location of wireless callers and provide a callback number. These features are similar to the services on the landline E9-1-1 system, which includes selective routing, ANI and ALI. However, this ruling provided limited benefits in California. All wireless 9-1-1 calls by law would still have to be directed first to the CHP, requiring the CHP to transfer numerous calls and delaying dispatch of emergency response.

AB 1263 (Chapter 981 Statutes of 2000) has brought E9-1-1 into the wireless which is very desirable from a public safety standpoint. As of January 1, 2001, wireless 9-1-1 calls may be routed to other than the CHP for response. This new law opens the door to allow the delivery and the best and the fastest public safety telephone system to the people of California. In addition, it allows the TD to implement to the extent possible Executive Order W-186-98. This Executive Order requires the DGS and the CHP to implement FCC Report & Order 94-102 and memorandum Opinion and Order 97-402 to the fullest extent possible to provide Californians with the highest quality WE9-1-1 service available. It further requires the DGS to promote technological improvements in the E9-1-1 system to "maintain the most efficient and cost effective public safety services available."

In this time of terrorism and heightened concerns about public safety and security, it would be less than prudent to suspend or even delay the progress of the WE9-1-1 project plan. Funding has already been appropriated specifically for the planning and implementation of WE9-1-1 throughout California (see Table 3) on the following page.



Table 3

Estimated Statewide Wireless E9-1-1 Costs				
Service	2001-02	2002-03	2003-04	Recurring Cost
PSAP Upgrades	\$ 5,250,000	\$ 5,250,000	\$ 5,250,000	\$0
Mapping	\$16,409,000	\$16,409,000	\$16,409,000	\$0
Additional Trunks	\$ 4,000,000	\$ 7,333,000	\$10,667,000	\$10,000,000
Wireless Carrier Costs	\$ 6,000,000	\$11,000,000	\$10,000,000	\$10,000,000
TOTAL	\$31,659,000	\$39,992,000	\$42,326,000	\$20,000,000

## ***Discussion***

### *The Need to Maintain an Adequate Reserve in the ETNA*

Retaining the Emergency Telephone Users Surcharge at the current rate of 0.72 percent would provide for the continued collection of revenue sufficient to support the deployment of WE9-1-1 in California, while maintaining the existing level of 9-1-1 program support. Since revenue is based on intrastate telephone usage, it can be difficult to predict call patterns especially in uncertain economic times. Much of the double-digit growth in revenue in the past three years can be attributed to the phenomenal increase in wireless telephone subscribers. "Although the trend has been an average of 14 percent annual growth in revenue, there has been two years of negative revenue growth in fiscal years 1992/93 and 1995/96." One year of negative growth in conjunction with a flattening of the double-digit growth trend would put at risk funding for existing wire line services and PSAP equipment and severely limit the 9-1-1 Office's ability to meet its financial obligations.

The average charge appearing on a ratepayer's telephone bill is 30 cents per month. Reducing the surcharge would provide only a marginal benefit of a few cents per month, but it would deplete the only source of funding for 9-1-1 emergency communications for the entire state. Expectations of the public are very high with regard to emergency communications and response. Thus far, the state has been able to meet those expectations.

### *The Need to Maintain Current 911 Operations and Enhanced 911 Wireless Services*

In prior years, the 9-1-1 Office has needed augmentations of as much as \$15 million above the baseline budget allotment to meet its commitments to PSAP agencies as well as 9-1-1 equipment providers. Although the 9-1-1 Office has made substantial changes to reduce program costs and improve the cost effectiveness of procurements, there still may be occasions when additional funds are needed. Since fiscal year 1998/1999, the 9-1-1 budget has been deficient between \$6 million and \$15 million each year for an average of \$10.75 million (See Table 4 on the following page).

Table 4

FISCAL YEAR	DEFICIENCY AMOUNT
1998/1999	\$13,201,000
1999/2000	\$14,926,000
2000/2001	\$ 6,116,000
2001/2002	\$ 8,788,000

*Recommend Rate Adjustments to the Surcharge to Achieve the Recommended Reserve Level*

California Revenue and Taxation Code Section 41030 requires the DGS to “...determine annually, on or before September 1, a surcharge rate that it estimates will produce sufficient revenue to fund the current fiscal year’s 911 costs.” The DGS is further required by Section 41031 to notify the Board of Equalization of the new rate, which shall be fixed by the Board. These code sections already require the evaluation and setting of ETNA rates annually and recommending to the Board of Equalization an amount sufficient to sustain the program in the current budget year.

## **RECOMMENDATIONS**

With WE9-1-1 going through the planning and implementation stages, it would be prudent to delay any action on the Emergency Telephone Users Surcharge or fund balance until such time as this project has been completed. As full WE9-1-1 deployment nears, a more detailed and complete assessment of the fund requirements can be made and adjustments implemented accordingly. While most would agree it is good to return tax revenues or limit tax collection from the taxpayer whenever possible, it should not be done if it jeopardizes public safety or the programs that directly support public safety. With this in mind, we respectfully put forth the following recommendations:

1. No action should be taken to reduce the surcharge rate at this time;
2. No action should be taken to determine an appropriate fund balance until such time as the WE9-1-1 implementation is completed, since implementation costs are higher than the recurring costs (see Table 3);
3. The DGS will continue to evaluate, not less than annually, the ETNA to determine what adjustments should be implemented as required by law.

Implementing these three recommendations will go a long way to preserve the 9-1-1 program and provide the quality emergency communication services California is renowned for and its citizens routinely expect.